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THE FAMILY HOME - VALUE AND EQUITY

INTRODUCTION

Home ownership is often described as part of the 'great Australian dream', and has been encouraged and promoted by governments over much of Australia's history. Government regulations in the financial sector have affected both the supply and cost of housing finance. Direct measures such as cash grants and subsidies, and the favourable treatment of the family home in social security and taxation provisions, have also encouraged home ownership. In 1995-96, 70% of households lived in their own home.

Home ownership usually contributes to the wellbeing of owners by providing secure and, in the longer term, more affordable housing. For many Australians, the equity¹ accumulated in their home represents the major part of their household wealth. As well as financial security for retirement and unemployment, this equity also provides benefits such as collateral for loans for purposes such as cars and holidays, and for other investments.

Dwelling values for owner-occupied homes

In 1995-96, the mean value² of all owner-occupied dwellings in Australia was \$171,000 (table 8.16). However, values of dwellings are affected by a large number of factors, including size; condition; the quality and number of features such as garages, swimming pools, gardens, extra bathrooms, heating and cooling systems; and their proximity to schools, shopping centres and work.

The location of the dwelling is a major factor, with dwellings in capital cities having the highest home values within each State. In 1995-96, the mean value of owner-occupied dwellings in all capital cities was \$192,000 (table 8.17), compared to \$136,000 for homes outside the capital cities. These differences in home values result in very different housing wealth holdings for families across Australia.

The value of homes also varies markedly across different capital cities. In 1995-96, the mean value of owner-occupied dwellings in Sydney was \$256,000, while the mean value in Hobart was half of this (\$129,000).

8.16 DWELLING VALUE AND EQUITY IN THE HOME BY OWNER-OCCUPIERS - 1995-96

Age of reference person	Mean dwelling value \$'000	Mean loan outstanding \$'000	Mean equity \$'000	Owner-occupier households '000
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Under 35	147.6	62.3	85.3	787.2
35--44	179.0	46.7	132.3	1,082.1
45--54	188.8	22.7	166.1	1,063.5
55--64	179.2	6.7	172.6	750.2
65 and over	156.2	1.1	155.0	1,106.2
Total	170.8	27.1	143.6	4,789.3

Source: Australian Social Trends, 1998 (4102.0).

Dwelling values also vary according to the type of dwelling structures. Nearly all (90%) of owner-occupier households live in separate houses, with 5% in townhouses and other semi-detached houses, and 5% in flats, units and apartments. Separate houses are, on average, worth more than other types of dwellings.

Equity in the home

Housing wealth for owner-occupiers is defined as their equity² in the family home (including land). It is accumulated through the deposit placed at the time of purchase, through paying off the mortgage principal, and through capital gains and losses as the market value of the dwelling rises and falls over time. The equity is measured as the value of the dwelling, as estimated by the householders themselves, less the reported value of any outstanding loans secured against the dwelling.

For some buyers, high interest payments, combined with falling dwelling values in some periods and some locations, as well as any additional borrowings they have made, may even result in negative equity some years after purchase.

In general, however, the amount of equity held in the family home follows a life-cycle pattern. People accumulate a larger financial stake in their homes as they grow older. On average, young home owners have a smaller equity in their home than older home owners. This is because they may not have made enough mortgage repayments since purchasing their home to significantly reduce their loan principal.

However, even for young home owners, the equity in their homes is high. In 1995-96, home owners aged under 35 had an average equity of \$85,000 in their homes - 58% of the mean value of dwellings owned by this age group, and over half of the mean equity of all owner-occupiers (table 8.16).

Housing wealth for home owners increased with age up to 55-64, when the mean equity holding in 1995-96 was \$173,000. For households in the older age group (65 and over), the value of equity was lower (\$155,000). Elderly people were, on average, in smaller and lower-value dwellings.

Larger households generally lived in more expensive homes (reflecting a need for larger living areas) and also had a higher level of equity in their home. For example, the average value of equity owned by couples living with their dependent and non-dependent children only was \$173,000, a value 20% higher than the average for all home owners. In contrast, one-parent households had a considerably lower level of equity (\$121,000).

8.17 MEAN DWELLING VALUE OF OWNER-OCCUPIED HOMES IN CAPITAL CITIES - 1995-96

Capital city	Separate house \$'000	Semi-detached(a) \$'000	Flat, unit, apartment \$'000	All dwellings \$'000	Mean loan outstanding \$'000	Mean equity \$'000
Sydney	263.3	237.6	214.2	256.4	34.2	222.2
Melbourne	163.2	153.5	110.5	160.1	27.3	132.8
Brisbane	169.9	(b)143.2	(b)161.1	168.0	31.7	136.2
Adelaide	140.9	144.9	89.4	138.2	26.0	112.2
Perth	196.3	129.6	150.3	187.8	31.2	156.6
Hobart	130.3	(c)91.9	(b)101.5	128.5	20.0	108.5
Darwin	185.2	(b)148.2	n.p.	176.5	40.0	136.4
Canberra	186.5	173.2	(b)133.5	183.4	43.4	140.0
All capital cities	195.0	175.5	164.6	191.7	30.6	161.1

(a) Includes row or terrace house and townhouse.

(b) The estimate has a relative standard error of 25% to 50%.

(c) The estimate has a relative standard error greater than 50%.

Source: Unpublished data, Survey of Income and Housing Costs.

How much of Australia's household wealth is in the family home?

In 1995-96, the total value of all owner-occupied dwellings (including land) in Australia was estimated at \$820b. Owner-occupiers held \$690b in equity in their homes, or 84% of the value of total owner-occupier dwelling stock.

However, households have wealth holdings in many other forms of assets. Estimates from the Australian National Accounts (which are not completely comparable to the estimates based on household responses) show that the value of dwellings and residential land represents 50% of the total value of assets owned by the household sector. Almost 85% of this was for dwellings owned by owner-occupiers, the remainder being dwellings owned by households for rental investment, holiday homes and vacant dwellings. Equity in superannuation funds accounted for 17% of household assets, cash and saving deposits 12%, and shares and other securities 8%.

Endnotes

1 Value of dwelling is the estimated value of the dwelling and land, as reported by the household respondent in the Survey of Income and Housing Costs. It should be noted that estimates provided by household members may not necessarily agree with the market price or those obtained from certified valuers.

2 Equity in the home is the stated value of the dwelling less the stated value of outstanding

mortgages and loans secured against the dwelling. The value of outstanding loans may have been underestimated by some households, such as where the original loan was extended for non-housing purposes. As a result this may have overstated the value of the equity.

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